Tafas v. Dudas et al Doc. 253 Att. 12

EXHIBIT 12

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Public Comment Regarding: Changes to Practice

Date: 6/29/2007

Signer	Organization
Ron D. Katznelson	

Materials provided to OMB:
Memo (1,058k)
Presentation (217k)
Patent Continuations (859k)

In the interest of brevity and to avoid repetition, the following are part of this exhibit and are incorporated herein by this reference including all respective attachments:

1. **Appendix C to Exhibit 1** of the Brief of *Amicus Curiae* Dr. Ron D. Katznelson in support of plaintiffs, (Dkt. No. 231), as posted at OMB http://www.whitehouse.gov/omb/oira/0651/comments/460.pdf.

2. **Exhibit 2** to this brief. [Ron D. Katznelson, Patent Continuations, Product Lifecycle Contraction and the Patent Scope Erosion – A New Insight Into Patenting Trends, *Southern California Law Associations Intellectual Property Spring Seminar*, Laguna Niguel, CA, (June 8-10, 2007), at OMB: http://www.whitehouse.gov/omb/oira/0651/comments/460-patent.pdf

New Insights and Characterization of Patenting Trends in the United States

By Ron D. Katznelson, Ph.D.

Presented at the

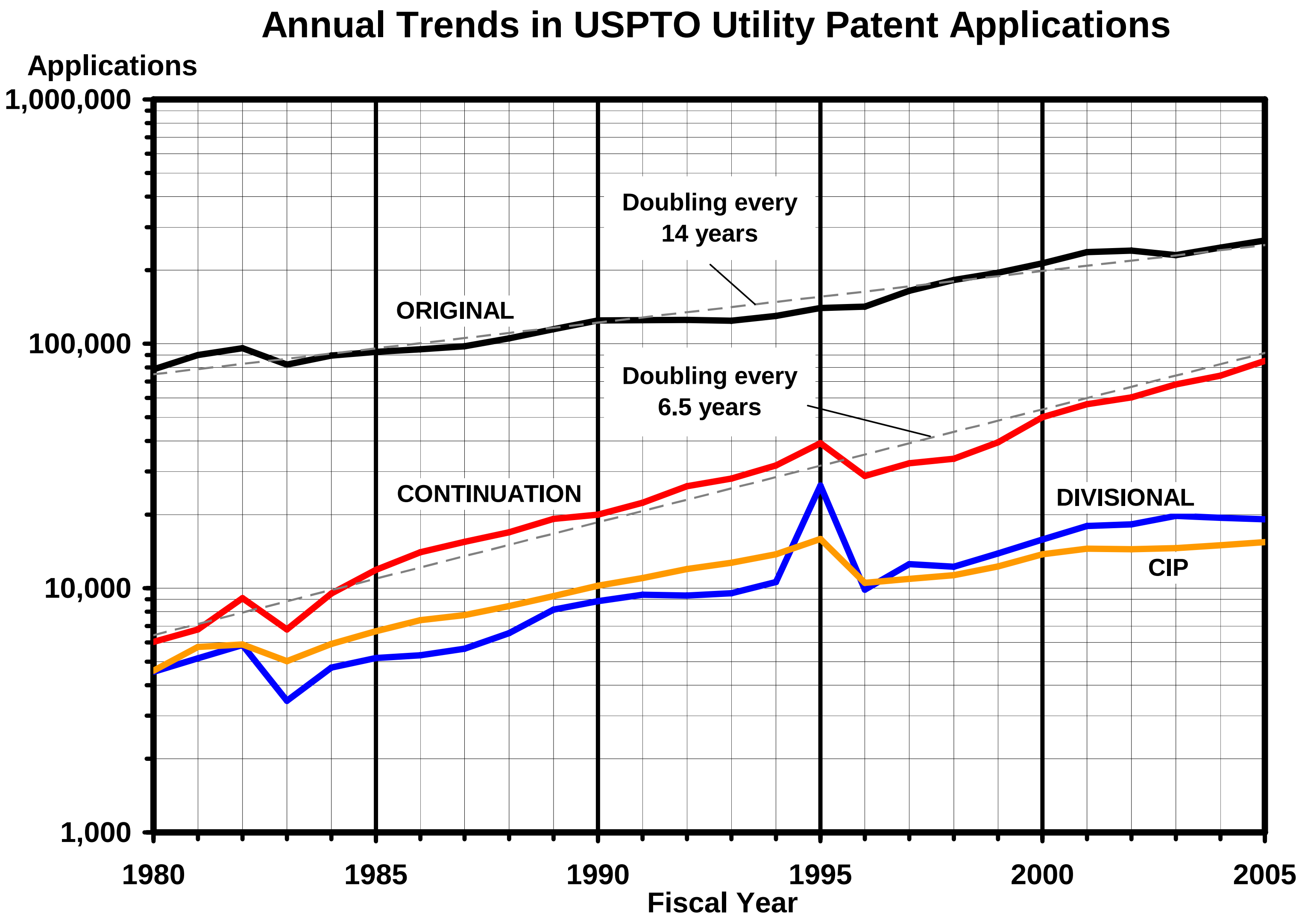
Southern California Law Associations Intellectual Property Spring Seminar, June 8–10, 2007, Laguna Niguel, CA

Content

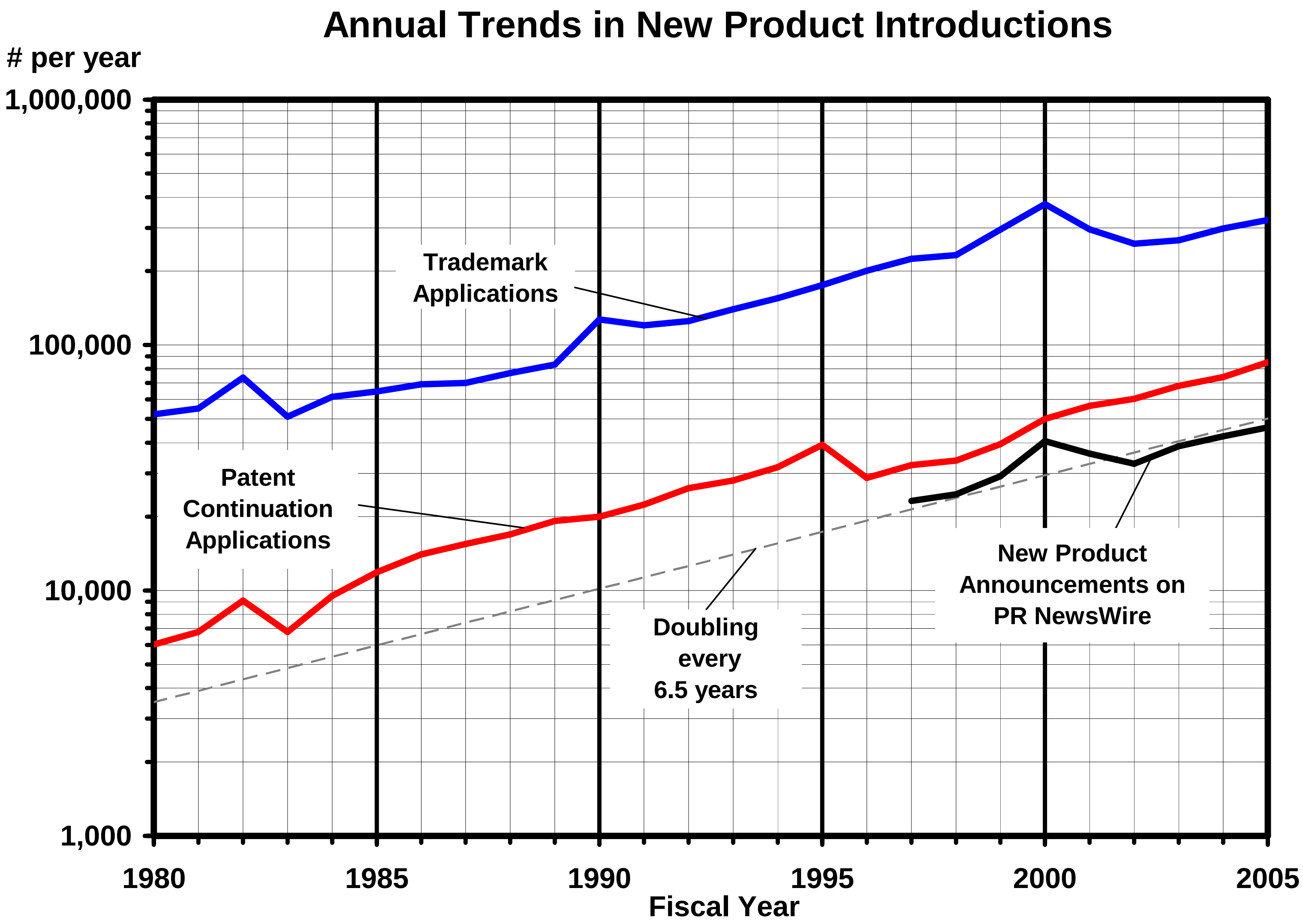
- Patent application filing rates
  - Continuations market trends and their essential role in securing US international IP competitiveness
- Examination of related factual predicates that motivate patent reform
- Unintended(?) consequences of proposed patent reforms
  - First-to-file vs. First-to-invent

Patent Application Components And Their Growth Trends

Continuations Are Filed At Progressively Higher Rate For The Last 25 Years

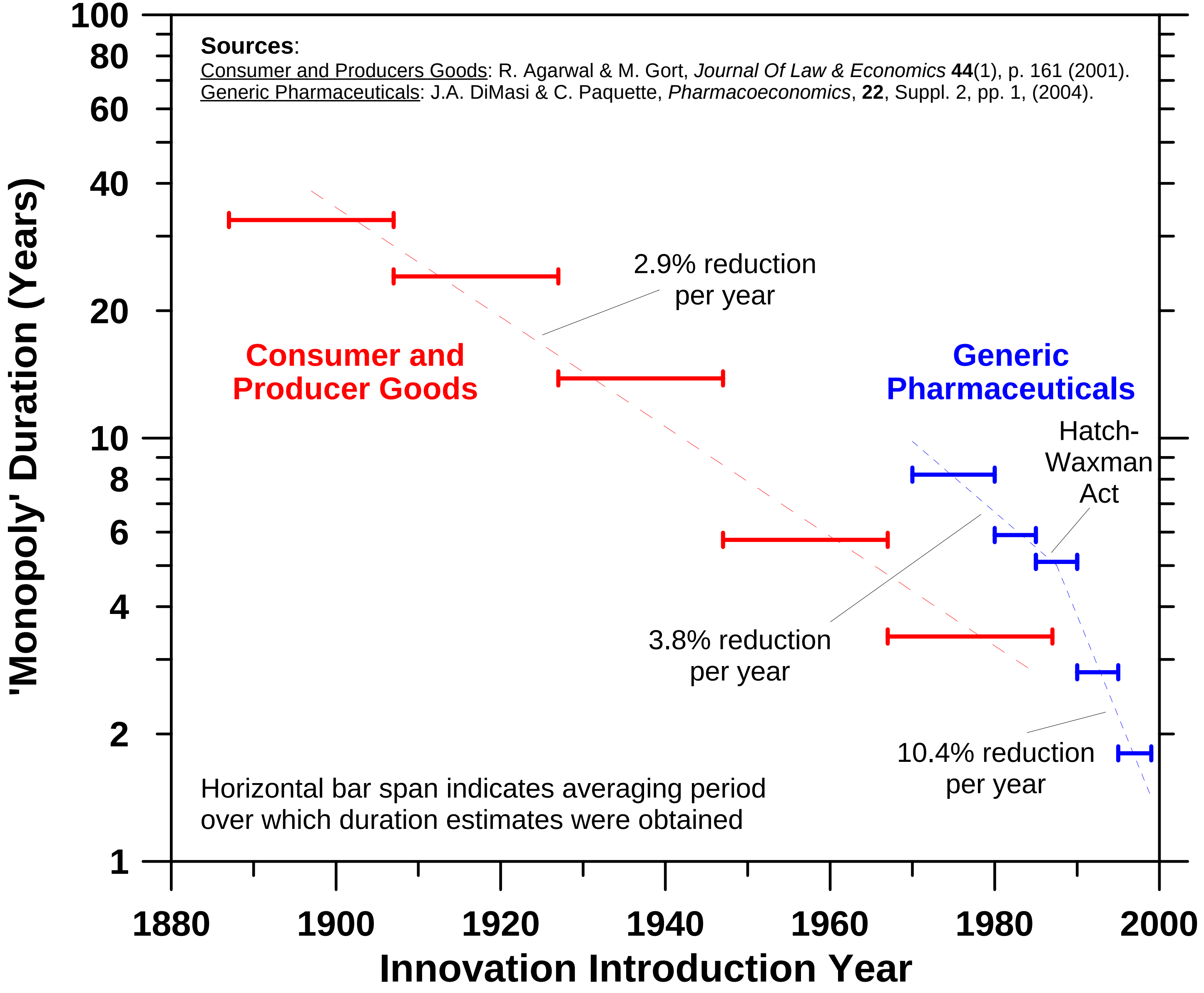

Annual Trends in USPTO Utility Patent Applications
Applications
1,000,000
100,000
10,000
1,000
Doubling every 14 years
ORIGINAL
Doubling every 6.5 years
CONTINUATION
DIVISIONAL
CIP
1980
1985
1990
1995
2000
2005
Fiscal Year

Continuations Are Filed To Better Match Claims To New Products In The Market



Annual Trends in New Product Introductions
# per year
1,000,000
100,000
10,000
1,000
Trademark Applications
Patent Continuation Applications
Doubling every 6.5 years
New Product Announcements on PR NewsWire
1980
1985
1990
1995
2000
2005
Fiscal Year

Historical Decline in Duration of Interval Prior to Competitive Entry for Innovations


100
80
60
40
20
10
8
6
4
2
1
'Monopoly' Duration (Years)
Sources:
Consumer and Producers Goods: R. Agarwal & M. Gort, Journal Of Law & Economics 44(1), p. 161 (2001).
Generic Pharmaceuticals: J.A. DiMasi & C. Paquette, Pharmacoeconomics, 22, Suppl. 2, pp. 1, (2004).
2.9% reduction per year
Consumer and Producer Goods
Generic Pharmaceuticals
Hatch-Waxman Act
3.8% reduction per year
10.4% reduction per year
Horizontal bar span indicates averaging period over which duration estimates were obtained
1880
1900
1920
1940
1960
1980
2000
Innovation Introduction Year

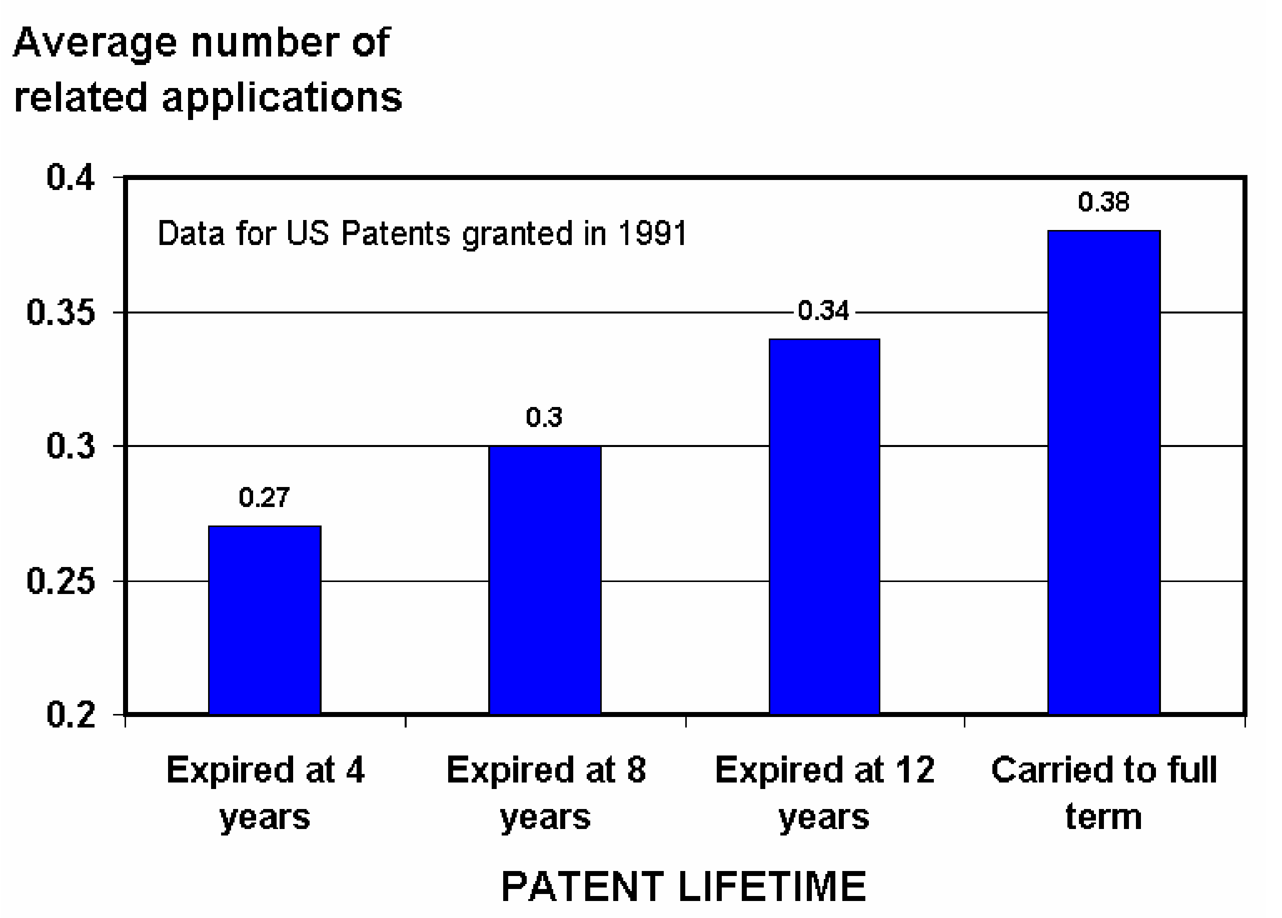
Continuations Filing Growth Rate Exceeds That Of Original Applications Because:

- Historical product life cycle reduction and the exponential growth in new product introductions necessitate new or amended patent claims in progressively growing fraction of inventions.
- Product lifecycle reduction over time is accompanied with the grant of patents with progressively diminishing claim scope.
- Patent continuations are essential for applicants who seek to appropriate equivalent returns from their inventions.
- However, as a steady 60% of Continuations, RCEs have not been the reason per se for increased growth rate.

Continuations' Important Role During The Pendency Of A Prior Application

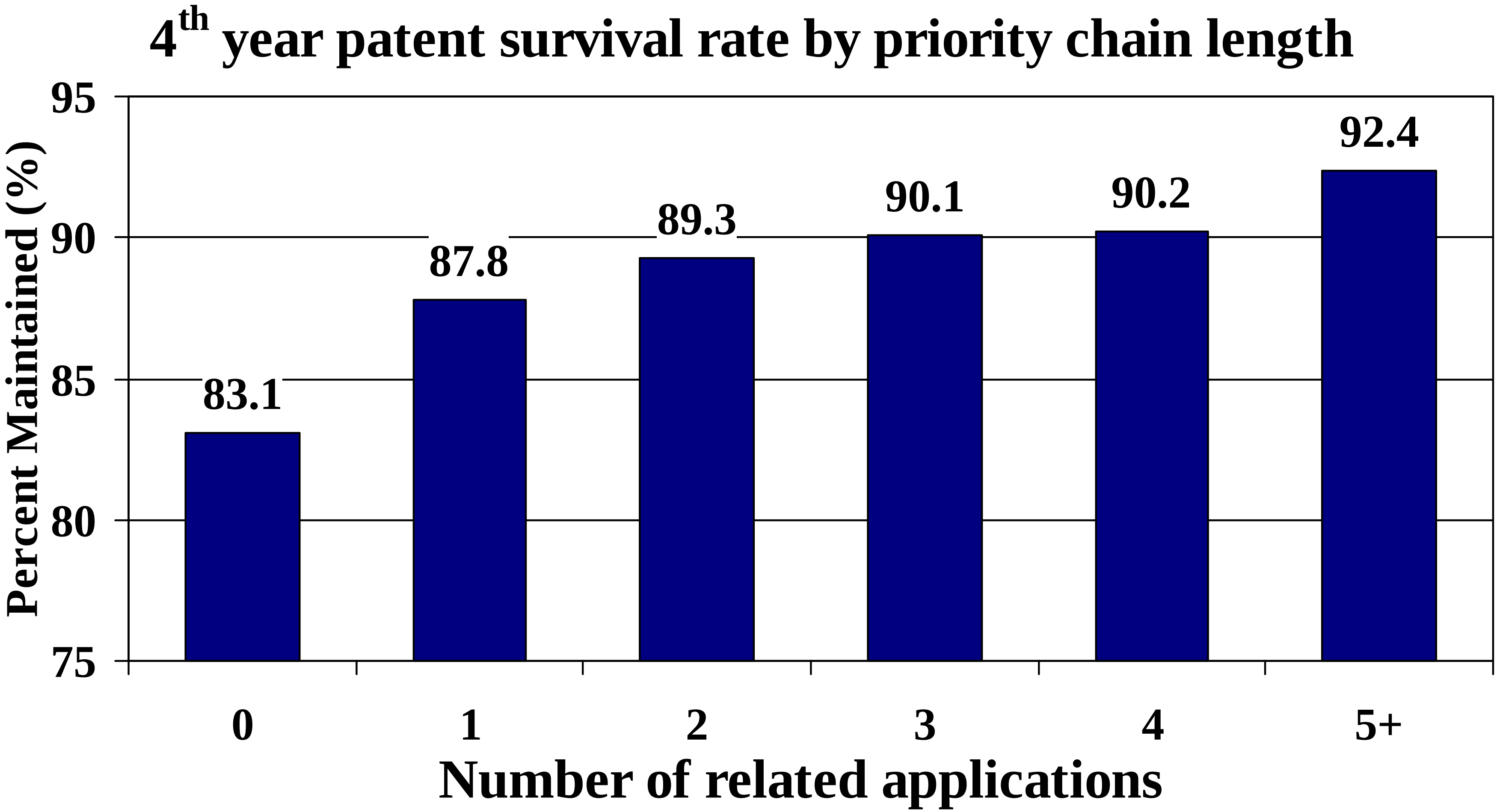
- Claiming one's invention need not end at the original filing date
- Facilitates presentation of claims based on new market, new development and prior art information
- Enables improved matching of claims' scope and content to actual products in the market place
- "Breaths new life" in protecting inventions embedded in products under ***ever-increasing obsolescence rate***
- Continuations are unique to the US patent system

US Patents Issued From Continuations, CIPs and Divisions Have Longer Lifetimes


Average number of related applications
Data for US Patents granted in 1991
0.4
0.35
0.3
0.25
0.2
0.27
0.3
0.34
0.38
Expired at 4 years
Expired at 8 years
Expired at 12 years
Carried to full term
PATENT LIFETIME

➢ ***Source***: K.A. Moore, Worthless Patents, *Berkeley Technology Law Journal*. **20**(4), p.1521, (Fall 2005) (Table 6).

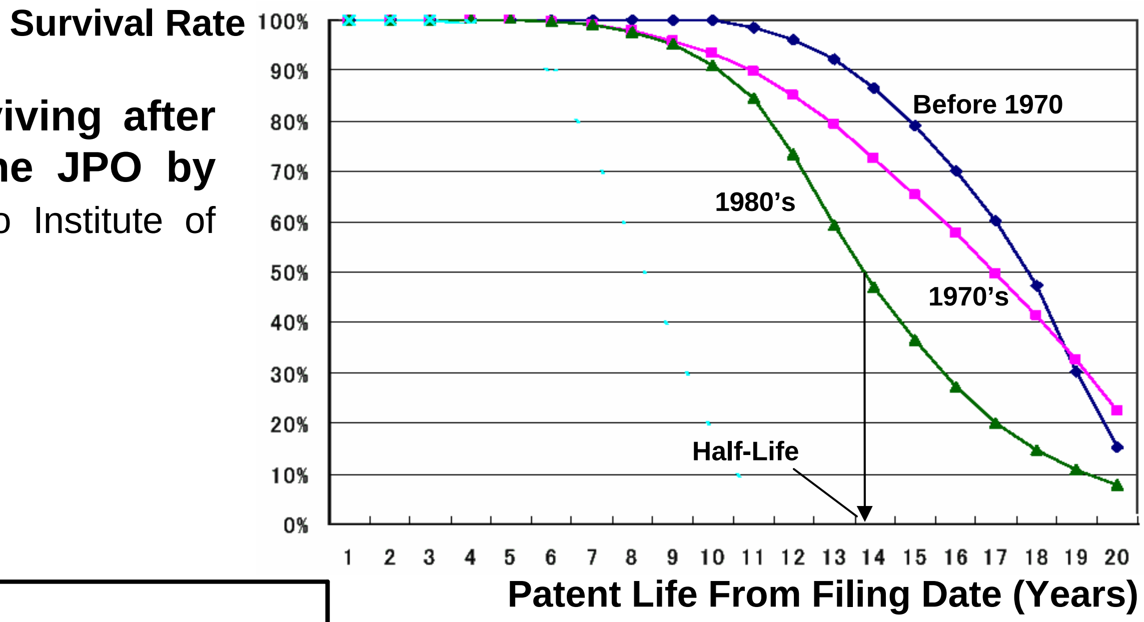
US Patents Issued From Continuations, CIPs and Divisions Have Longer Near Term Lifetimes



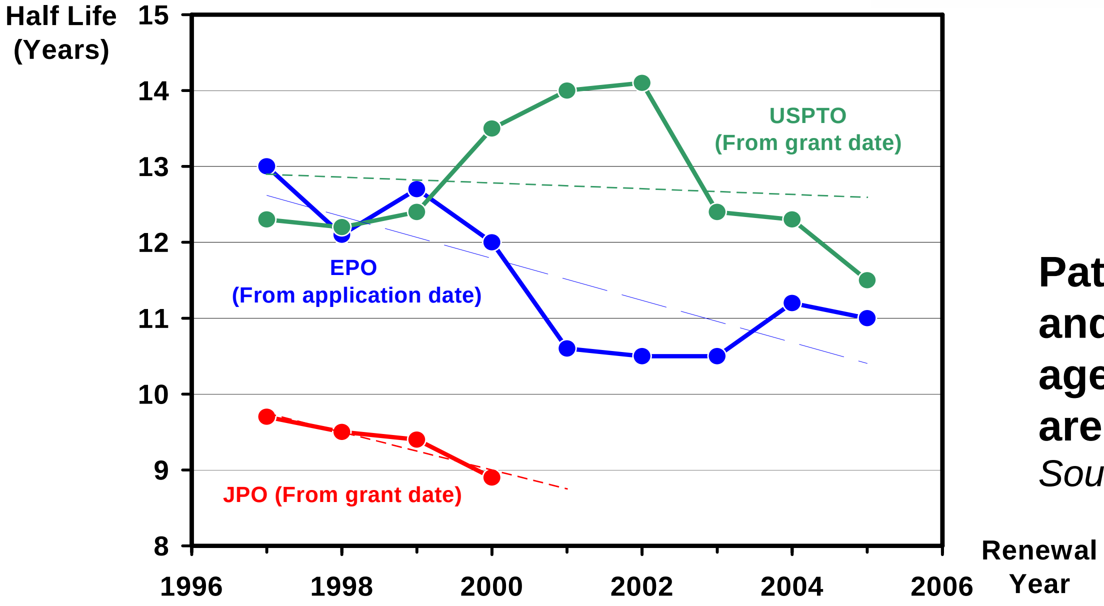
4th year patent survival rate by priority chain length
Percent Maintained (%)
95
90
85
80
75
83.1
87.8
89.3
90.1
90.2
92.4
0
1
2
3
4
5+
Number of related applications

Source: J.A. Barney, *AIPLA Quarterly Journal*, **30**(3), pp. 317-352 (September 2002).
. Data for patents granted in 1996.

Continuations Help Reduce US Patents' Lifetime Erosion Compared to That of Other Nations


Survival Rate
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Before 1970
1980's
1970's
Half-Life
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Patent Life From Filing Date (Years)

Percent of patents surviving after renewal payments at the JPO by grant era. *Source*: Tokyo Institute of Intellectual Property (2006).


Half Life (Years)
15
14
13
12
11
10
9
8
USPTO (From grant date)
EPO (From application date)
JPO (From grant date)
1996 1998 2000 2002 2004 2006
Renewal Year

Patent lifetime at the USPTO, EPO and JPO. Half-Life is the patent age at which 50% of the patents are not renewed by their owners. *Source*: Trilateral Patent Offices (2006).

Separation of The Two Patent Pillars

Time spans and relevance

The Patent Bargain	20th Century	21st Century
Disclosure	Specification	Specification
Right To Exclude	Claims	Claims

- Bifurcating events of disclosure and events of obtaining claims becomes necessary due to shortening product lifecycles and accelerated claim obsolescence.

Limiting Continuations at the USPTO Will Harm US Competitiveness in World Markets

- In the unavoidable product lifetime reduction market environment, patent claim obsolescence is an increasing problem
- Foreign patents' lifetime erosion has been a contributor to their inability to sustain full incentives and protection to their owners.
- US continuations provides US patentees unique means for mitigating patent obsolescence
- The US is moving towards greater reliance on innovation and IP while loosing more of its industrial base. Any patent reform that reduces our patent system to an eroding patent system as used by our trading partners, will only weaken the US.

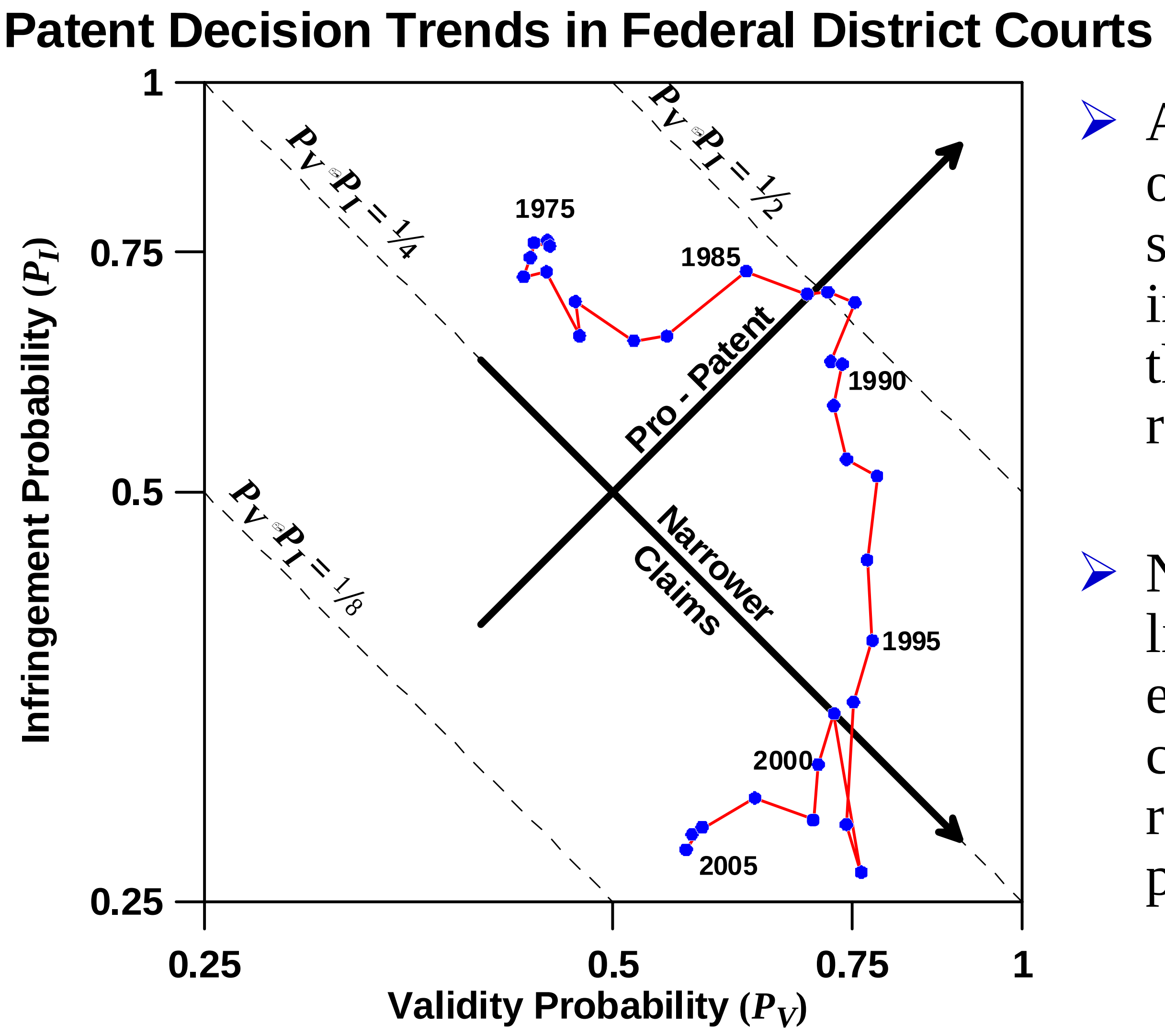
Myth: Overbroad Patents Are Issued

"The Subcommittee may … examine the extent to which current patent law permits and contributes to the ***issuance of overbroad patents****, as well as other patent law problems".*

-- House Judiciary Committee Oversight Plan

110th Congress, (February 7, 2007)

Patents Are Issued With Gradually Diminishing Scope



Patent Decision Trends in Federal District Courts
1
0.75
0.5
0.25
0.25
0.5
0.75
1
Infringement Probability (P_I)
Validity Probability (P_V)
$P_V \cdot P_I = 1/4$
$P_V \cdot P_I = 1/2$
$P_V \cdot P_I = 1/8$
1975
1985
1990
1995
2000
2005
Pro - Patent
Narrower Claims

- Adjudicated claims were of gradually diminishing scope relative to alleged infringing activities and the accumulating prior art record.
- Notwithstanding litigation selection effects, the adjudicated claims narrowing trend is reflective generally of the patent base as a whole.

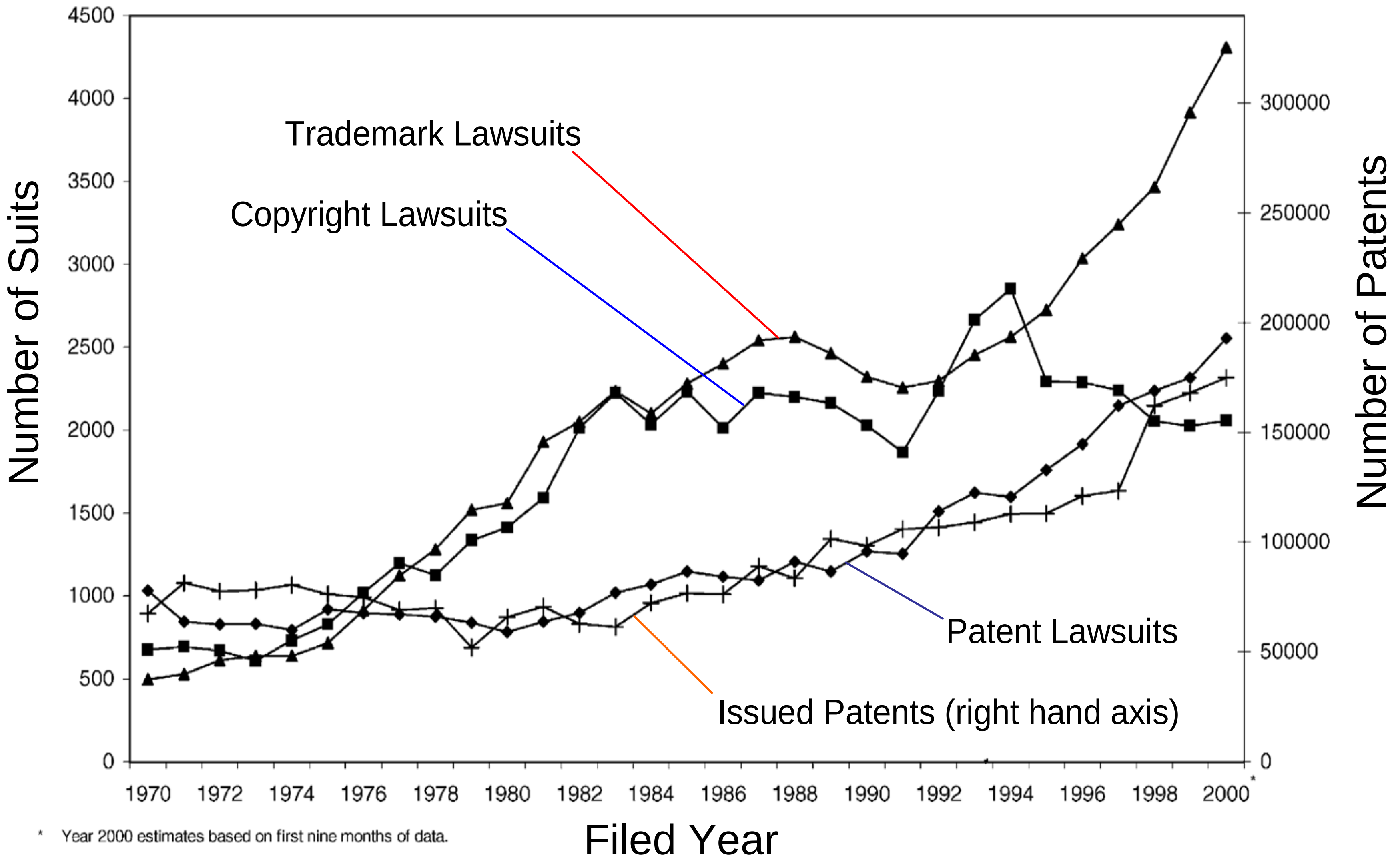
Data source: Henry & Turner (2006), note 147 for 1975-2000 and *Patstats* for 2001-2005.

Myth: The Patent Litigation "Explosion"

"*… burgeoning patent litigation is* ***increasingly*** *making lawyers the key players in competitive struggles rather than entrepreneurs and researchers.*" (emphasis supplied)

-- Jaffe & Lerner, *Innovation and its discontents* (2004), section "The Patent Litigation Explosion", at 13.

Compared To What?


4500
4000
3500
3000
2500
2000
1500
1000
500
0
300000
250000
200000
150000
100000
50000
0
Number of Suits
Number of Patents
Trademark Lawsuits
Copyright Lawsuits
Patent Lawsuits
Issued Patents (right hand axis)
1970 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000*
Filed Year
* Year 2000 estimates based on first nine months of data.

Source: Somaya (2004), note 200, Courtesy of Elsevier Ltd.

Trend Analysis Is Meaningless Without A Comparison Scale

- The growth in the number of patent lawsuit filings was substantially lower than that of trademark lawsuit filings.
- As an indicator of commercial activity, the relative number of patent lawsuits has not changed much. Patent lawsuits in 2005 were 1% of all Federal civil lawsuits - the same percentage as that recorded in 1975.

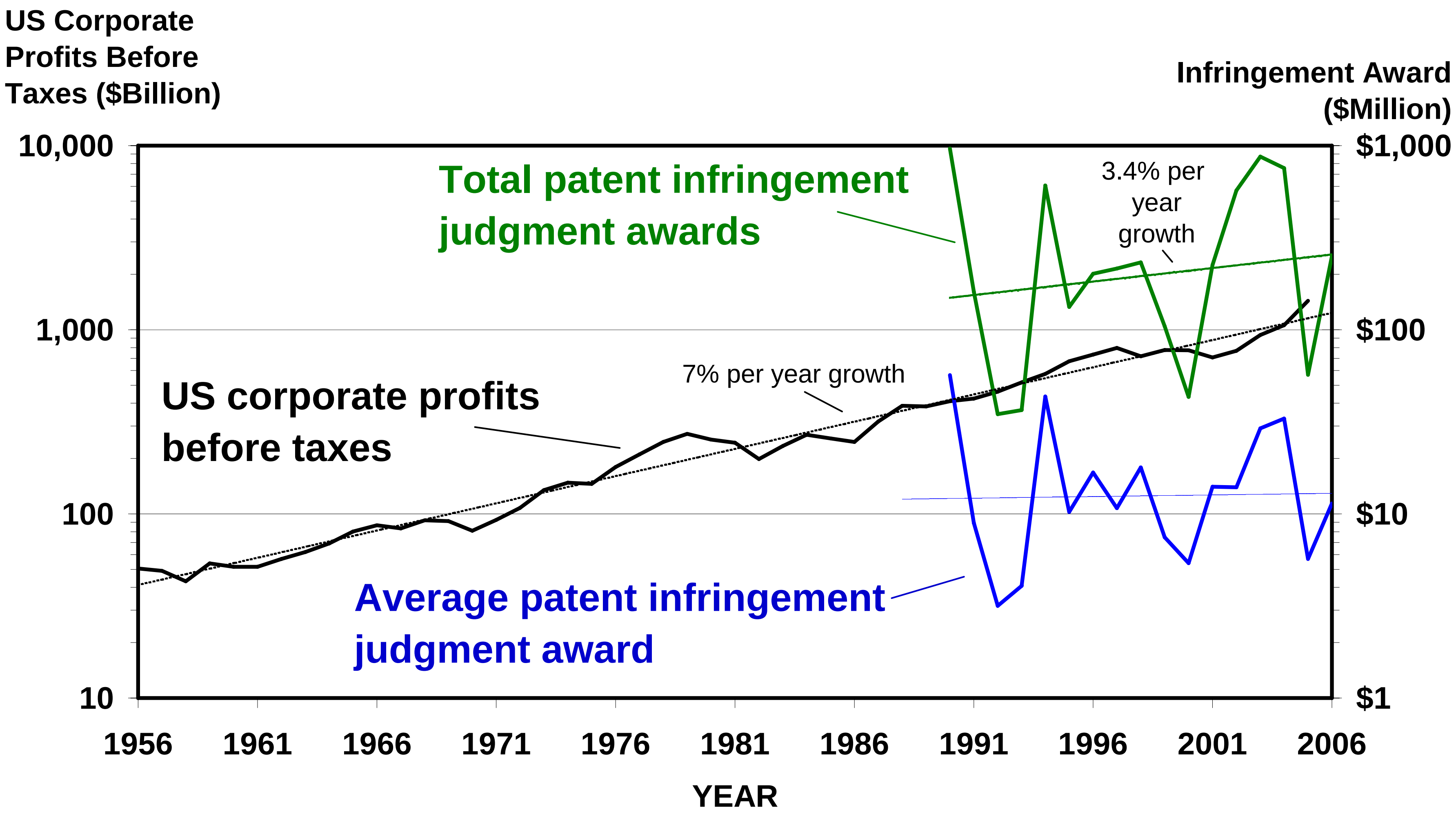
Myth: Patent Infringement Damage Awards "Have Grown Out Of Control"

- The patent critics argue that the trends for damage awards represent a growing unjustified "tax" on innovation.

- "..***evidence*** is mounting that judicial determinations of damages for patent infringement have begun to exceed market rates." (emphasis supplied)

  - House hearing testimony of Professor **John R. Thomas**, March 29, 2007.

Damages - No Evidence That Use of *Georgia-Pacific* Factors Have "Begun to Exceed Market Rate"

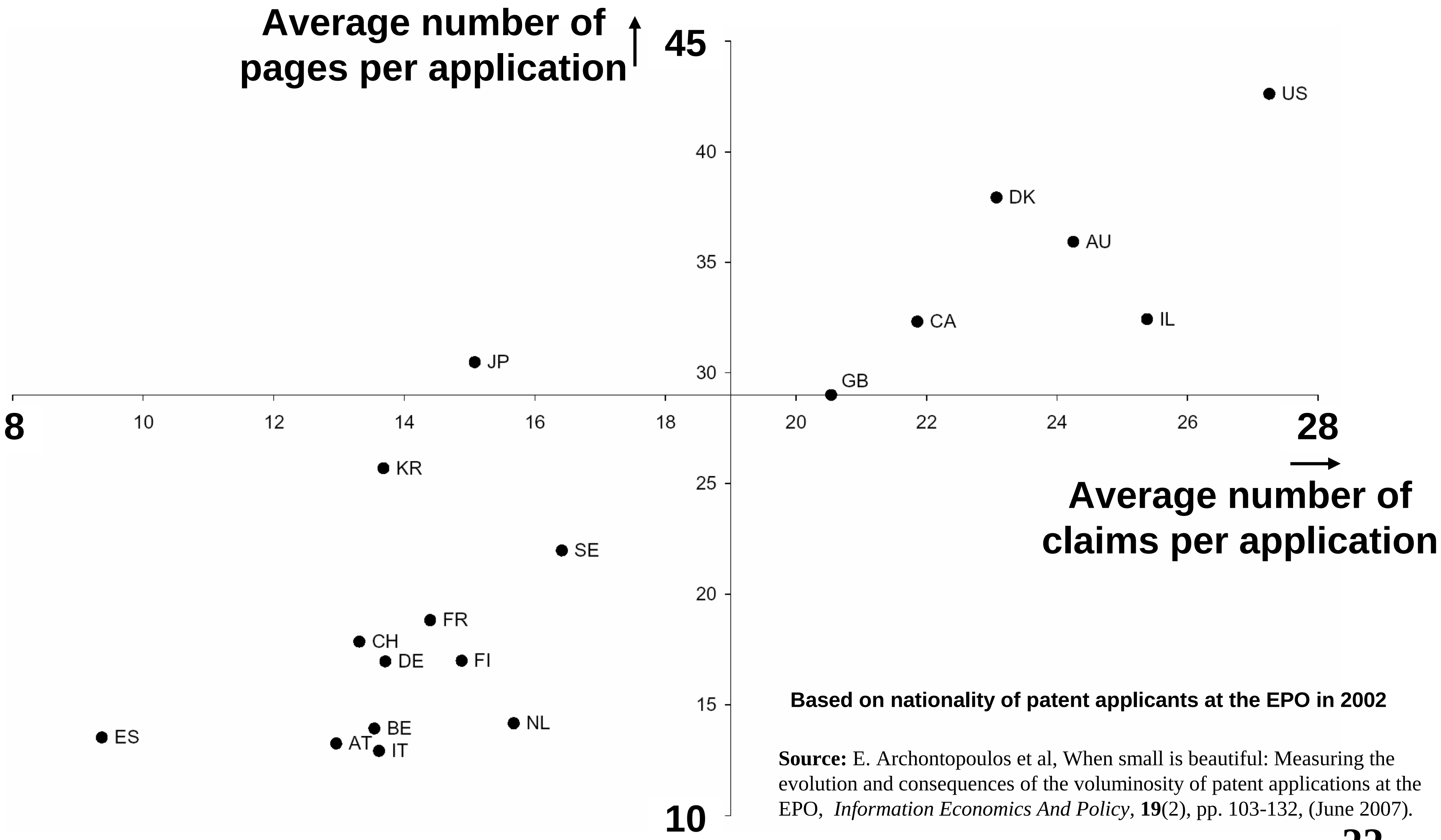


US Corporate Profits Before Taxes ($Billion)
Infringement Award ($Million)
10,000
1,000
100
10
$1,000
$100
$10
$1
Total patent infringement judgment awards
3.4% per year growth
7% per year growth
US corporate profits before taxes
Average patent infringement judgment award
1956
1961
1966
1971
1976
1981
1986
1991
1996
2001
2006
YEAR

Sources: US Census Bureau, *The 2007 Statistical Abstract*, Table 770. Corporate Profits, Taxes, and Dividends: 1929 to 2005; PricewaterhouseCoopers, *2007 Patent and Trademark Damages Study*.

Unintended Consequences Of “First To File” Patent Reforms

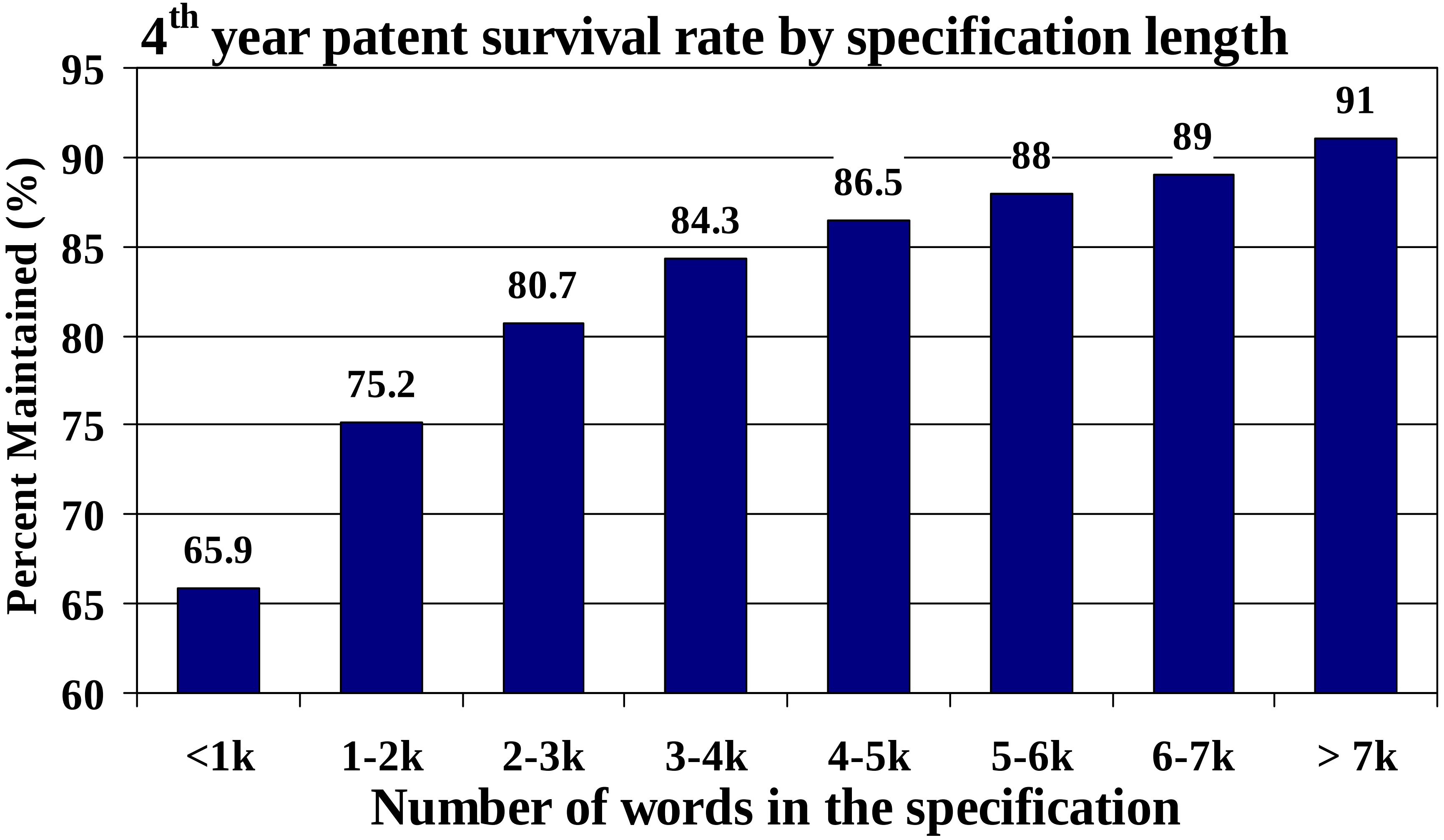
Patentees in 'First-to-file' Countries Lag Behind in Patent Disclosure Breadth Compared to US Patentees


Average number of pages per application
45
40
35
30
25
20
15
10
8
10
12
14
16
18
20
22
24
26
28
Average number of claims per application
US
DK
AU
IL
CA
JP
GB
KR
SE
FR
CH
DE
FI
NL
BE
ES
AT
IT

Based on nationality of patent applicants at the EPO in 2002

Source: E. Archontopoulos et al, When small is beautiful: Measuring the evolution and consequences of the voluminosity of patent applications at the EPO, *Information Economics And Policy*, **19**(2), pp. 103-132, (June 2007).

Longer Disclosures Confers More Valuable Patent Rights



4th year patent survival rate by specification length
95
90
85
80
75
70
65
60
Percent Maintained (%)
65.9
75.2
80.7
84.3
86.5
88
89
91
<1k
1-2k
2-3k
3-4k
4-5k
5-6k
6-7k
> 7k
Number of words in the specification

Source: J.A. Barney, *AIPLA Quarterly Journal*, **30**(3), pp. 317-352 (September 2002).
. Data for patents granted in 1996.

Unintended consequences of "Harmonizing" down

- Although other factors contribute to US' longer disclosures than that of other countries, not having to "race-to-the-patent-office" is a significant contributor.
- In nations that use the First-to-File system, applicants are wrongly balancing disclosure and enablement detail with a race to be the first to file. (see prior slide).
- Should it be adopted, the resultant decline in disclosure breadth in a US First-to-File system would not only deny the public from receiving the full benefits of the patent bargain, but will also produce a progressively poorer prior art record, resulting in overbroad or low quality patents subsequently being issued.

Unintended consequences of "Harmonizing" down (Contd.)

- In this regard, "Harmonization" is another word for tipping the trade scale in favor of our trading partners. Today, US patentees file more extensive and detailed applications in part because they are not under the 'First-to-File' gun. They later file the same applications in foreign countries. In both venues, US applicants are able to submit more claims that have broader support in the disclosure. – Better patents.
- Foreign inventors must make due with less specification support and are therefore generally disadvantaged compared to US applicants when the scope and number of claims are considered. This US advantage should not be taken away.
- A US originated patent right is more valuable to its owners because it is more effective in excluding foreign originated products ***even in foreign markets***.
- Changing the current law for the sake of removing uncertainty in only a ***few hundred interference cases*** will likely have far reaching unintended consequences to the US economy.

Conclusions

- The US patent system is the best in the world.
- Continuations must be permitted to be the wave of the future, or else, US patent rights will erode due to accelerated claim obsolescence.
- There is no factual support to allegations of overbroad patents, patent litigation “explosion” or of excessive patent damage awards.
- **Do not fix that which is not broken in the US patent system.**

Thank You